

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 NEA-14 ISO-00 AEC-11 AID-20 CEA-02

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3178

INFO AMEMBASSY TEHRAN

C O N F I D E N T I A L L O N D O N 1 0 6 7 9

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: SHELL AND HMG VIEWS ON SHAH'S PROPOSAL FOR
SINGLE PRICE FOR OIL

REF: A) STATE 181050, B) TEHRAN 6326

1. SHELL SOURCE VOLUNTEERED SHAH IS TALKING SENSE IN
ADVOCATING SINGLE PRICE AS OPPOSED TO PRESENT "STUPID"
MULTI-PRICE SYSTEM, BUT THAT THERE ARE PROBLEMS CONNECTED
WITH PROPOSAL. FIRST, ALL OF OPEC MUST AGREE SINGLE
PRICE WILL BE STABLE FOR GIVEN PERIOD, E.G. QUARTERLY.
SECOND, CRUDE DIFFERENTIALS MUST BE SET RIGHT. THIRD,
APPROPRIATE DISCOUNT MUST BE AWARDED EQUITY SHARE-HOLD-
ERS.

2. SHELL SOURCE WENT ON TO NOTE SHAH HAS SAID AVERAGE
PRICE (OF EQUITY, BUYBACK, ETC.) TO CONSUMER SHOULD NOT
RISE, AND IF HE STICKS TO THIS, AT LEAST PRICE WILL NOT
GO HIGHER. WHEN QUERIED ABOUT EFFECT OF PRICING TIED TO
INFLATION INDEX, SOURCE REPLIED SHELL HAD ARGUED AGAINST
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THIS IDEA TO AMOUZEGAR. SHELL HAD SAID INDEXING MAY

EVENTUALLY BE APPROPRIATE IF WORLDWIDE INFLATION DOES NOT STOP, BUT THAT OPEC IS "AHEAD OF THE GAME" HAVING SOUGHT \$7. A BARREL EARLIER THIS YEAR AND GOTTEN \$9. AMOUZEGAR REJECTED THIS APPROACH OBSERVING THAT INFLATION IS FACT OF LIFE AND MUST BE TIED TO OIL PRICE.

3. HMG'S VIEW OF SHAH'S PROPOSAL WAS CONVEYED TO HIM PERSONALLY ON AUGUST 17 BY UK AMBASSADOR PARSONS IN TEHRAN. HMG NOTED ITS GRAVE RESERVATIONS ABOUT INDEXATION AND SAID IT WOULD HAVE TO STUDY OVERALL PROPOSAL A GREAT DEAL MORE BEFORE TAKING A POSITION. INSTRUCTION WAS TO BE DISCOURAGING BUT NOT TOTALLY NEGATIVE.

4. HMG, ESPECIALLY UK TREASURY IS STRONGLY OPPOSED TO INDEXATION UNDER ALMOST ANY CIRCUMSTANCES. ON OTHER HAND, A SINGLE OIL PRICE UNENCUMBERED BY INDEXATION WHICH WAS NOT HIGHER THAN CURRENT AVERAGE PRICE MIGHT WELL BE ACCEPTABLE TO HMG. INDEXATION IS SEEN AS INHERENTLY INFLATIONARY, CAPABLE OF SETTING A DANGEROUS PRECEDENT FOR OTHER COMMODITIES, AN ATTEMPT TO INSULATE ONE COMPONENT OF MARKET FORCES WHICH WOULD INEVITABLY DISTORT ENTIRE ECONOMIC RELATIONSHIP AMONG NATIONS AND TENDING TO SET A PRICE FLOOR AND NOT A CEILING (GIVEN HISTORY OF RECENT OIL INDUSTRY AGREEMENTS).

5. COMMENT: AS A MAJOR SHORT ON EQUITY CRUDE, SHELL MAY HAVE SOME EXTRA INCENTIVE TO FAVOR SHAH'S SINGLE PRICE PROPOSAL. IN IMPROVING COMPETITIVE POSITION VIS A VIS OTHER MAJORS, CONSUMER RATHER THAN SHELL ULTIMATELY WOULD BE PAYING HIGHER COSTS SHOULD THEY RESULT FROM SINGLE PRICE SYSTEM WHETHER OR NOT RELATED TO INDEXATION. CONVERSELY, ATTITUDE OF HMG HAS BEEN HARDENED DURING PAST WEEK BY SKEPTICAL UK TREASURY ATTITUDE TOWARD INDEXATION. AS A MATTER OF TACTICS, HOWEVER, HMG - AND BP - WILL NOT ANTAGONIZE SHAH AND THUS INTEND TO KEEP DIALOGUE GOING.

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